

MERCER INTERNATIONAL INC.
Form 10-Q
July 26, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No.: 000-51826

MERCER INTERNATIONAL INC.

(Exact name of Registrant as specified in its charter)

Washington

(State or other jurisdiction

47-0956945

(I.R.S. Employer

of incorporation or organization)

Identification No.)

Suite 1120, 700 West Pender Street, Vancouver, British Columbia, Canada, V6C 1G8

(Address of office)

(604) 684-1099

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the *Securities Exchange Act of 1934* during the preceding 12 months (or for such shorter period that the Registrant

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MERCER INTERNATIONAL INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

(Unaudited)

FORM 10-Q

QUARTERLY REPORT - PAGE 2

MERCER INTERNATIONAL INC.**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(In thousands of U.S. dollars, except per share data)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues	\$ 346,532	\$ 283,177	\$ 714,435	\$ 525,961
Costs and expenses				
Operating costs, excluding depreciation and amortization	271,134	230,534	525,419	403,130
Operating depreciation and amortization	22,906	20,521	46,115	39,637
Selling, general and administrative expenses	15,016	13,259	29,377	22,985
Operating income	37,476	18,863	113,524	60,209
Other income (expenses)				
Interest expense	(12,128)	(13,320)	(24,243)	(27,199)
Loss on settlement of debt (Note 4(a))			(21,515)	(10,696)
Legal cost award (Note 11(c))			(6,951)	
Other income (expenses)	(132)	137	(369)	573
Total other expenses	(12,260)	(13,183)	(53,078)	(37,322)
Income before provision for income taxes	25,216	5,680	60,446	22,887
Provision for income taxes	(8,461)	(7,784)	(18,042)	(15,265)
Net income (loss)	\$ 16,755	\$ (2,104)	\$ 42,404	\$ 7,622
Net income (loss) per common share				
Basic and diluted	\$ 0.26	\$ (0.03)	\$ 0.65	\$ 0.12
Dividends declared per common share	\$ 0.125	\$ 0.115	\$ 0.250	\$ 0.230

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**(Unaudited)****(In thousands of U.S. dollars)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	\$ 16,755	\$ (2,104)	\$ 42,404	\$ 7,622
Other comprehensive income (loss), net of taxes ⁽¹⁾				
Foreign currency translation adjustment	(55,807)	58,471	(39,522)	69,640
Change in unrecognized losses and prior service costs related				
to defined benefit pension plan	(574)	309	(728)	602
Change in unrealized gains/losses on marketable securities	26	3	27	5
Other comprehensive income (loss), net of taxes ⁽¹⁾	(56,355)	58,783	(40,223)	70,247
Total comprehensive income (loss)	\$ (39,600)	\$ 56,679	\$ 2,181	\$ 77,869

(1) Balances are net of tax effects of \$nil in all periods.

The accompanying notes are an integral part of these interim consolidated financial statements.

FORM 10-Q

QUARTERLY REPORT - PAGE 3

MERCER INTERNATIONAL INC.**INTERIM CONSOLIDATED BALANCE SHEETS****(Unaudited)****(In thousands of U.S. dollars, except share and per share data)**

	June 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 269,482	\$ 143,299
Restricted cash to redeem senior notes (Note 4(a))		317,439
Accounts receivable	190,807	206,027
Inventories	189,233	176,601
Prepaid expenses and other	12,041	8,973
Total current assets	661,563	852,339
Property, plant and equipment, net	836,116	844,848
Intangible and other assets	23,299	26,147
Deferred income tax	1,411	1,376
Total assets	\$ 1,522,389	\$ 1,724,710
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable and other	\$ 187,532	\$ 133,557
Pension and other post-retirement benefit obligations	939	985
Senior notes to be redeemed with restricted cash (Note 4(a))		295,924
Total current liabilities	188,471	430,466
Debt	699,261	662,997
Pension and other post-retirement benefit obligations	21,579	21,156
Capital leases and other	37,671	27,464
Deferred income tax	36,905	31,961
Total liabilities	983,887	1,174,044
Shareholders equity		
Common shares \$1 par value; 200,000,000 authorized;		
65,202,000 issued and outstanding (2017 65,017,000)	65,171	64,974
Additional paid-in capital	340,450	338,695

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Retained earnings	232,105	205,998
Accumulated other comprehensive loss	(99,224)	(59,001)
Total shareholders' equity	538,502	550,666
Total liabilities and shareholders' equity	\$ 1,522,389	\$ 1,724,710

Commitments and contingencies (Note 11)

Subsequent events (Note 4(c) and Note 8)

The accompanying notes are an integral part of these interim consolidated financial statements.

FORM 10-Q

QUARTERLY REPORT - PAGE 4

MERCER INTERNATIONAL INC.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands of U.S. dollars)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Cash flows from (used in) operating activities				
Net income (loss)	\$ 16,755	\$ (2,104)	\$ 42,404	\$ 7,622
Adjustments to reconcile net income (loss) to cash flows from operating activities				
Depreciation and amortization	23,014	20,625	46,333	39,846
Deferred income tax provision	1,204	4,196	6,016	8,405
Loss on settlement of debt			21,515	10,696
Defined benefit pension plan and other post-retirement benefit plan expense	432	540	871	1,066
Stock compensation expense	1,759	912	1,952	751
Other	1,311	(153)	2,131	525
Defined benefit pension plan and other post-retirement benefit plan contributions	(60)	(319)	(105)	(851)
Changes in working capital				
Accounts receivable	13,475	(37,426)	8,343	(43,714)
Inventories	(12,221)	(5,294)	(19,043)	4,131
Accounts payable and accrued expenses	36,906	36,954	54,933	43,835
Other	3,170	(1,846)	(3,228)	(2,842)
Net cash from (used in) operating activities	85,745	16,085	162,122	69,470
Cash flows from (used in) investing activities				
Purchase of property, plant and equipment	(28,655)	(19,743)	(44,839)	(27,907)
Purchase of intangible assets	(153)	(165)	(320)	(405)
Acquisition of Friesau Facility		(61,627)		(61,627)
Other	67	77	67	77
Net cash from (used in) investing activities	(28,741)	(81,458)	(45,092)	(89,862)
Cash flows from (used in) financing activities				
Redemption of senior notes			(317,439)	(234,945)
Proceeds from issuance of notes				250,000
Proceeds from revolving credit facilities, net	17,665	26,525	37,736	26,525
Dividend payments	(8,147)	(7,472)	(16,274)	(14,912)
Payment of interest rate derivative liability		(3,789)		(3,789)
Payment of debt issuance costs		(1,008)	(1,390)	(6,132)

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Other	(771)	1,879	(1,619)	958
Net cash from (used in) financing activities	8,747	16,135	(298,986)	17,705
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(9,835)	5,916	(9,300)	6,434
Net increase (decrease) in cash, cash equivalents and restricted cash	55,916	(43,322)	(191,256)	3,747
Cash, cash equivalents and restricted cash, beginning of period	213,566	187,965	460,738	140,896
Cash, cash equivalents and restricted cash, end of period	\$ 269,482	\$ 144,643	\$ 269,482	\$ 144,643
Supplemental cash flow disclosure				
Cash paid for interest	\$ 4,424	\$ 16,425	\$ 15,696	\$ 20,881
Cash paid for income taxes	\$ 2,742	\$ 2,677	\$ 4,220	\$ 5,204
Supplemental schedule of non-cash investing and financing activities				
Leased production equipment	\$ 12,126	\$	\$ 12,126	\$ 139

The accompanying notes are an integral part of these interim consolidated financial statements.

FORM 10-Q

QUARTERLY REPORT - PAGE 5

MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands of U.S. dollars, except share and per share data)

Note 1. The Company and Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

The Interim Consolidated Financial Statements contained herein include the accounts of Mercer International Inc. (Mercer Inc.) and all of its subsidiaries (collectively the Company). The Company s shares of common stock are quoted and listed for trading on the NASDAQ Global Market.

The Interim Consolidated Financial Statements have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission (the SEC). The year-end Consolidated Balance Sheet data was derived from audited financial statements. The footnote disclosure included herein has been prepared in accordance with accounting principles generally accepted for interim financial statements in the United States (GAAP). The unaudited Interim Consolidated Financial Statements should be read together with the audited Consolidated Financial Statements and accompanying notes included in the Company s latest Annual Report on Form 10-K for the fiscal year ended December 31, 2017. In the opinion of the Company, the unaudited Interim Consolidated Financial Statements contained herein contain all adjustments necessary for a fair statement of the results of the interim periods included. The results for the periods included herein may not be indicative of the results for the entire year.

In these Interim Consolidated Financial Statements, unless otherwise indicated, all amounts are expressed in United States dollars (U.S. dollars or \$). The symbol € refers to euros and the symbol C\$ refers to Canadian dollars.

Use of Estimates

Preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant management judgment is required in determining the accounting for, among other things, pension and other post-retirement benefit obligations, deferred income taxes (valuation allowance and permanent reinvestment), depreciation and amortization, future cash flows associated with impairment testing for long-lived assets, the allocation of the purchase price in a business combination to the assets acquired and liabilities assumed, legal liabilities and contingencies. Actual results could differ materially from these estimates, and changes in these estimates are recorded when known.

New Accounting Pronouncements

Accounting Pronouncements Implemented

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-09, Revenue Recognition Revenue from Contracts with Customers that requires companies to recognize revenue when a customer obtains control rather than when companies have transferred substantially all risks and rewards of a good or service. Additionally, the update provides presentation and disclosure requirements which are more detailed in regards to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The

Company adopted this standard as at January 1, 2018 using the modified retrospective method. The new standard does not change the timing of when the Company recognizes revenue as the majority of the Company's revenue arises from contracts with customers in which the sale of goods is the main performance obligation. The Company's revised revenue recognition disclosure has been included in the Significant Accounting Policies and the Business Segment Information Note.

FORM 10-Q

QUARTERLY REPORT - PAGE 6

MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands of U.S. dollars, except share and per share data)

Note 1. The Company and Summary of Significant Accounting Policies (continued)

In March 2017, the FASB issued Accounting Standards Update 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-Retirement Benefit Cost which requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The Company adopted this standard as at January 1, 2018. For the three and six month periods ended June 30, 2018, \$289 and \$582 of the net benefit cost, respectively, has been recorded in other income (expenses) in the Interim Consolidated Statement of Operations. For the three and six month periods ended June 30, 2017, \$376 and \$736, respectively, has been reclassified from operating costs, excluding depreciation and amortization to other income (expenses) in the Interim Consolidated Statement of Operations.

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income (GILTI) provisions of the Tax Cuts and Jobs Act (the Act). The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The Company has elected to treat any potential GILTI inclusions as a period cost.

Accounting Pronouncements Not Yet Implemented

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (ASU 2016-02) which requires lessees to recognize virtually all of their leases on the balance sheet, by recording a right-of-use asset and liability. This update is effective for financial statements issued for fiscal years beginning after December 15, 2018, with early adoption permitted at the beginning of an interim or annual reporting period. The Company is currently assessing the impact the adoption of ASU 2016-02 will have on its consolidated financial statements.

In February 2018, the FASB issued Accounting Standards Update 2018-02, Income Statement - Reporting Comprehensive Income which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Act. This standard is effective for fiscal years beginning after December 15, 2018, and should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Act is recognized. The Company believes this new standard will not have an impact on its consolidated financial statements.

In June 2018, the FASB issued Accounting Standards Update 2018-07, Compensation - Stock Compensation - Improvements to Nonemployee Share-Based Payment Accounting which both clarifies and modifies accounting requirements relating to nonemployee share based payment transactions. The Company believes this new standard will not have an impact on its consolidated financial statements.

Significant Accounting Policies

Revenue Recognition

The Company recognizes revenue when obligations under the terms of a contract with its customer are satisfied; generally this occurs with the transfer of control of the products sold. Transfer of control to the customer is based on the standardized shipping terms in the contract as this determines when the Company has the right to payment, the customer has legal title to the asset and the customer has the risks of ownership. Payment terms are defined in the contract and payment is typically due within three months after control has transferred to the customer. The contracts do not have a significant financing component.

The Company has elected to exclude value added, sales and other taxes it collects concurrent with revenue-producing activities from revenues.

FORM 10-Q

QUARTERLY REPORT - PAGE 7

MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands of U.S. dollars, except share and per share data)

Note 1. The Company and Summary of Significant Accounting Policies (continued)

The Company may arrange shipping and handling activities as part of the sale of its products. The Company has elected to account for shipping and handling activities that occur after the customer has obtained control of the product as a fulfillment cost rather than as an additional promised service.

The following is a description of the principal activities from which the Company generates its revenues. For a breakdown of revenues by product and geographic location see the Business Segment Information Note.

Pulp and Lumber Revenues

For European sales sent by truck or train from the mills directly to the customer, the contracted sales terms are such that control transfers once the truck or train leaves the mill. For orders sent by ocean freighter, the contract terms state that control transfers at the time the product passes the ships rail. For North American sales shipped by truck or train, the contracts state that control transfers once the truck or train has arrived at the customer's specified location.

The transaction price is included in the sales contract and is net of customer discounts, rebates and other selling concessions.

The Company's pulp sales are to tissue and paper producers and the Company's lumber sales are to manufacturers and retailers. The Company's sales to Europe and North America are direct to the customer. The Company's pulp sales to overseas customers are primarily through third party sales agents and the Company's lumber sales to overseas customers are either direct to the customer or through third party sales agents.

By-Product Revenues

Energy sales are to utility companies in Canada and Germany. Sales of energy are recognized as the electricity is consumed by the customer and is based on contractual usage rates and meter readings that measure electricity consumption.

Chemicals and wood residuals are sold into the European market direct to the customer and have shipping terms where control transfers once the chemicals or wood residuals are loaded onto the truck at the mill.

Note 2. Inventories

June 30, December 31,

	2018		2017	
Raw materials	\$	77,844	\$	49,137
Finished goods		42,518		58,364
Spare parts and other		68,871		69,100
	\$	189,233	\$	176,601

Note 3. Accounts Payable and Other

	June 30, 2018		December 31, 2017	
Trade payables	\$	49,175	\$	36,151
Accrued expenses		90,733		67,528
Interest payable		16,505		10,093
Income tax payable		10,941		4,324
Legal cost award payable (Note 11(c))		6,951		
Dividends payable		8,150		8,126
Other		5,077		7,335
	\$	187,532	\$	133,557

FORM 10-Q

QUARTERLY REPORT - PAGE 8

MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands of U.S. dollars, except share and per share data)

Note 4. Debt

	June 30, 2018	December 31, 2017
2022 Senior Notes, principal amount, \$100,000 (a)	\$ 98,780	\$ 394,565
2024 Senior Notes, principal amount, \$250,000 (a)	245,776	245,398
2026 Senior Notes, principal amount, \$300,000 (a)	294,203	293,773
Revolving credit facilities		
75.0 million (b)		
C\$40.0 million (c)		
70.0 million (d)	34,974	25,185
5.0 million (e)		
25.0 million (f)	25,528	
	\$ 699,261	\$ 958,921

As at June 30, 2018, the maturities of the principal portion of debt are as follows:

2018	\$
2019	
2020	25,528
2021	
2022	134,974
Thereafter	550,000
	\$ 710,502

Certain of the Company's debt instruments were issued under agreements which, among other things, may limit its ability and the ability of its subsidiaries to make certain payments, including dividends. These limitations are subject to specific exceptions. As at June 30, 2018, the Company is in compliance with the terms of its debt agreements.

- (a) On December 20, 2017, the Company issued \$300,000 in aggregate principal amount of 5.50% senior notes which mature on January 15, 2026 (2026 Senior Notes). The 2026 Senior Notes were issued at a price of 100.00% of their principal amount. The net proceeds of the offering were \$293,795, after deducting the underwriter's discount and offering expenses.

In January 2018, the Company used the net proceeds, together with cash on hand, to redeem \$300,000 in aggregate principal amount of 2022 Senior Notes (herein defined below). In connection with this redemption the Company recorded a loss on settlement of debt of \$21,515 in the Interim Consolidated Statement of Operations. As at December 31, 2017, the total cash used to redeem the 2022 Senior Notes was classified as restricted cash and the carrying value of the 2022 Senior Notes was classified as a current liability in the Consolidated Balance Sheet.

On February 3, 2017, the Company issued \$225,000 in aggregate principal amount of 6.50% senior notes which mature on February 1, 2024 (2024 Senior Notes) and on March 16, 2017, the Company issued an additional \$25,000 in aggregate principal amount of its 2024 Senior Notes. The 2024 Senior Notes were issued at a price of 100.00% of their principal amount. The net proceeds of the offerings were \$244,711, after deducting the underwriter's discount and offering expenses. The net proceeds from the 2024 Senior Notes, together with cash on hand, were used to redeem \$227,000 of remaining aggregate principal amount of outstanding senior notes due 2019, to finance the acquisition of a German sawmill and bio-mass power plant near Friesau Germany (the Friesau Facility) and for general working capital purposes. In connection with the redemption the Company recorded a loss on settlement of debt of \$10,696 in the Interim Consolidated Statement of Operations.

FORM 10-Q

QUARTERLY REPORT - PAGE 9

MERCER INTERNATIONAL INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands of U.S. dollars, except share and per share data)

Note 4. Debt (continued)

On November 26, 2014, the Company issued \$400,000 in aggregate principal amount of 7.75% senior notes which mature on December 1, 2022 (2022 Senior Notes and collectively with the 2024 Senior Notes and 2026 Senior Notes, the Senior Notes).

The Senior Notes are general unsecured senior obligations of the Company. They rank equal in right of payment with all existing and future unsecured senior indebtedness of the Company and are senior in right of payment to any current or future subordinated indebtedness of the Company. The Senior Notes are effectively junior in right of payment to all existing and future secured indebtedness, to the extent of the assets securing such indebtedness, and all indebtedness and liabilities of the Company's subsidiaries.

The Company may redeem all or a part of the 2026 Senior Notes, upon not less than 10 days or more than 60 days notice, at the redemption prices (expressed as percentages of principal amount) discussed below, plus accrued and unpaid interest to (but not including) the applicable redemption date. The Company may redeem all or a part of the 2024 Senior Notes or 2022 Senior Notes, upon not less than 30 days or more than 60 days notice, at the redemption prices (expressed as percentages of principal amount) discussed below, plus accrued and unpaid interest to (but not including) the applicable redemption date. The 2026 Senior Notes redemption prices are equal to 102.750% for the twelve month period beginning on January 15, 2021, 101.375% for the twelve month period beginning on January 15, 2022, and 100.000% beginning on January 15, 2023 and at any time thereafter. The 2024 Senior Notes redemption prices are equal to 103.250% for the twelve month period beginning on February 1, 2020, 101.625% for the twelve month period beginning on February 1, 2021, and 100.000% beginning on February 1, 2022 and at any time thereafter. The 2022 Senior Notes redemption prices are equal to 105.813% for the twelve month period beginning on December 1, 2017, 103.875% for the twelve month period beginning on December 1, 2018, 101.938% for the twelve month period beginning on December 1, 2019, and 100.000% beginning on December 1, 2020 and at any time thereafter.

- (b) A 75.0 million revolving credit facility at the Stendal mill that matures in October 2019. Borrowings under the facility are collateralized by the mill's inventory and accounts receivable and bear interest at Euribor plus 3.50%. As at June 30, 2018, approximately 2.2 million (\$2,592) of this facility was supporting bank guarantees leaving approximately 72.8 million (\$84,843) available.
- (c) A C\$40.0 million revolving credit facility at the Celgar mill that matures in May 2019. Borrowings under the facility are collateralized by the mill's inventory and accounts receivable and are restricted by a borrowing base calculated on the mill's inventory and accounts receivable. Canadian dollar denominated amounts bear interest at

bankers acceptance plus 1.50% or Canadian prime. U.S. dollar denominated amounts bear interest at LIBOR plus 1.50% or U.S. base. As at June 30, 2018, approximately C\$1.7 million (\$1,290) was supporting letters of credit and approximately C\$38.3 million (\$29,086) was available.

In July 2018, the Company amended the credit facility including extending its maturity date to July 2023 and reducing the applicable margin on interest rates for Canadian and U.S. dollar denominated balances by 0.25% when the remaining borrowing capacity is greater than or equal to 25% of the total facility.

- (d) A 70.0 million joint revolving credit facility that matures in April 2022. The Rosenthal mill has full access to the available amount under the facility and the Company's wholly owned subsidiary, Mercer Timber Products GmbH has access to a maximum of 45.0 million. Borrowings under the facility are collateralized by the borrowers' inventory and accounts receivable and bear interest at Euribor plus 2.95%. As at June 30, 2018, approximately 30.0 million (\$34,974) of this facility was drawn and accruing interest at a rate of 2.95% and approximately 11.6 million (\$13,478) of this facility was supporting bank guarantees leaving approximately 28.4 million (\$33,154) available.

FORM 10-Q

QUARTERLY REPORT - PAGE 10

MERCER INTERNATIONAL INC.**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(In thousands of U.S. dollars, except share and per share data)****Note 4. Debt (continued)**

- (e) A 5.0 million revolving credit facility at the Rosenthal mill that matures in December 2018. Borrowings under this facility bear interest at the rate of the three-month Euribor plus 2.50% and are secured by certain land at the Rosenthal mill. As at June 30, 2018 approximately 2.6 million (\$2,975) of this facility was supporting bank guarantees leaving approximately 2.4 million (\$2,854) available.
- (f) A 25.0 million revolving credit facility for the Company's wholly owned German subsidiary, Mercer Holz GmbH (Mercer Holz), that matures in February 2020. Borrowings under this facility bear interest at Euribor plus 3.30% and are secured by Mercer Holz's inventory and accounts receivable. As at June 30, 2018, approximately 21.9 million (\$25,528) of this facility was drawn and accruing interest at a rate of 3.30% and approximately 0.3 million (\$373) of this facility was supporting bank guarantees leaving approximately 2.8 million (\$3,244) available.

Note 5. Pension and Other Post-Retirement Benefit Obligations**Defined Benefit Plans**

Included in pension and other post-retirement benefit obligations are amounts related to the Company's Celgar and Rosenthal mills. The largest component of these obligations is with respect to the Celgar mill which maintains a defined benefit pension plan and other post-retirement benefit plans for certain employees (the Celgar Defined Benefit Plans).

Pension benefits are based on employees' earnings and years of service. The Celgar Defined Benefit Plans are funded by contributions from the Company based on actuarial estimates and statutory requirements.

The components of the net benefit costs relating to the Celgar Defined Benefit Plans for the three and six month periods ended June 30, 2018 and 2017 were as follows:

	Three Months Ended June 30,			
	2018		2017	
	Pension	Other Post-Retirement Benefits	Pension	Other Post-Retirement Benefits
Service cost	\$ 26	\$ 117	\$ 23	\$ 141
Interest cost	317	178	324	229

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Expected return on plan assets	(384)		(486)	
Amortization of unrecognized items	230	(52)	270	39
Net benefit costs	\$ 189	\$ 243	\$ 131	\$ 409

FORM 10-Q

QUARTERLY REPORT - PAGE 11

MERCER INTERNATIONAL INC.**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(In thousands of U.S. dollars, except share and per share data)****Note 5. Pension and Other Post-Retirement Benefit Obligations (continued)**

	Six Months Ended June 30,			
	2018		2017	
	Pension	Other Post-Retirement Benefits	Pension	Other Post-Retirement Benefits
Service cost	\$ 52	\$ 237	\$ 46	\$ 284
Interest cost	640	360	652	461
Expected return on plan assets	(777)		(979)	
Amortization of unrecognized items	464	(105)	527	75
Net benefit costs	\$ 379	\$ 492	\$ 246	\$ 820

Defined Contribution Plan

Effective December 31, 2008, the Celgar Defined Benefit Plans were closed to new members. In addition, the defined benefit service accrual ceased on December 31, 2008, and members began to receive pension benefits, at a fixed contractual rate, under a new defined contribution plan effective January 1, 2009. During the three and six month periods ended June 30, 2018, the Company made contributions of \$217 and \$435, respectively (2017 \$192 and \$459), to this plan.

Multiemployer Plan

The Company participates in a multiemployer plan for the hourly-paid employees at the Celgar mill. The contributions to the plan are determined based on a percentage of pensionable earnings pursuant to a collective bargaining agreement. The Company has no current or future contribution obligations in excess of the contractual contributions. During the three and six month periods ended June 30, 2018, the Company made contributions of \$658 and \$1,145, respectively (2017 \$568 and \$1,046), to this plan.

FORM 10-Q

QUARTERLY REPORT - PAGE 12

MERCER INTERNATIONAL INC.**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(In thousands of U.S. dollars, except share and per share data)****Note 6. Income Taxes**

The income tax provision attributable to income before provision for income taxes in the Interim Consolidated Statements of Operations differs from the amounts computed by applying the U.S. Federal statutory income tax rate of 21% (2017 - 35%) for the three and six month periods ended June 30, 2018 and 2017 as a result of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
U.S. Federal statutory rate	21%	35%	21%	35%
U.S. Federal statutory rate on income before provision for income taxes	\$ (5,296)	\$ (1,988)	\$ (12,694)	\$ (8,010)
Tax differential on foreign income	(2,639)	550	(7,228)	2,967
Effect of foreign earnings	(5,740)		(8,457)	
Change in undistributed earnings		(2,983)		(5,465)
Valuation allowance	3,773	(5,200)	22,018	(9,354)
Tax benefit of partnership structure	1,380	1,230	2,277	2,446
Non-taxable foreign subsidiaries	732	550	1,488	1,109
True-up of prior year taxes	(426)	(490)	(14,493)	(110)
Foreign exchange on valuation allowance	(352)	926	(674)	1,163
Foreign exchange on settlement of debt				550
Other	107	(379)	(279)	(561)
	\$ (8,461)	\$ (7,784)	\$ (18,042)	\$ (15,265)
Comprised of:				
Current income tax provision	\$ (7,257)	\$ (3,588)	\$ (12,026)	\$ (6,860)
Deferred income tax provision	(1,204)	(4,196)	(6,016)	(8,405)
	\$ (8,461)	\$ (7,784)	\$ (18,042)	\$ (15,265)

During the three month period ended June 30, 2018, the Company amended previously filed tax returns with the Canadian tax authorities. As a result, the Company reversed its unrecognized tax benefit of \$16,677 recorded during the three month period ended March 31, 2018 and increased its true-up of prior year taxes. The liability related to the amendment is fully offset by a reduction in the valuation allowance and the Company did not incur any interest or penalties.

The Act enacted on December 22, 2017 resulted in substantial changes including reducing the U.S. federal corporate income tax rate from 35% to 21% and requiring companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. The Company applied the guidance in Staff Accounting Bulletin No. 118 and at December 31, 2017 calculated its best estimate of the impact of the Act in its year end income tax provision. During the three and six month periods ended June 30, 2018, the Company did not record any measurement period adjustments to the provisional estimates recorded at December 31, 2017. Final accounting for these impacts is expected in the third quarter of 2018 subsequent to the Company's completion of the 2017 tax return.

FORM 10-Q

QUARTERLY REPORT - PAGE 13

MERCER INTERNATIONAL INC.**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(In thousands of U.S. dollars, except share and per share data)****Note 7. Net Income (Loss) Per Common Share**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)				
Basic and diluted	\$ 16,755	\$ (2,104)	\$ 42,404	\$ 7,622
Net income (loss) per common share				
Basic and diluted	\$ 0.26	\$ (0.03)	\$ 0.65	\$ 0.12
Weighted average number of common shares outstanding:				
Basic ⁽¹⁾	65,140,802	64,945,675	65,095,788	64,857,300
Effect of dilutive shares:				
Performance Share Units (PSUs)	520,920		506,475	438,204
Restricted shares	20,959		26,737	22,539
Diluted	65,682,681	64,945,675	65,629,000	65,318,043